



# **Financial Statements and Single Audit**

**For the Year Ended June 30, 2008**



**REHMANN ROBSON**

*Certified Public Accountants*

# FLAT ROCK COMMUNITY SCHOOLS

For the Year Ended June 30, 2008

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

October 17, 2008

Board of Education  
Flat Rock Community Schools  
Flat Rock, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **FLAT ROCK COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2008, which collectively comprise the School's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of **Flat Rock Community Schools'** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of **Flat Rock Community Schools** as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2008, on our consideration of **Flat Rock Community Schools'** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise **Flat Rock Community Schools'** basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of **Flat Rock Community Schools**. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of **Flat Rock Community Schools**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

## MANAGEMENT'S DISCUSSION and ANALYSIS

# **FLAT ROCK COMMUNITY SCHOOLS MANAGEMENT’S DISCUSSION AND ANALYSIS**

**June 30, 2008**

This section of the Flat Rock Community School District’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2008. Please read it in conjunction with the School District’s financial statements, which immediately follow this section.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments issued June, 2000.

## **Using this Annual Report**

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Flat Rock Community School District financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the whole School District, presenting both an aggregate view of the School District’s finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District’s operations in more detail than the government-wide financial statements by providing information about the School District’s most significant funds – such as the General and Debt Service Funds with all other funds presented in one column as Other Governmental Funds. The remaining statement, the Statement of Fiduciary Net Assets presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Below shows how the various parts of the annual report are arranged and related to one another.

## **Organization of Flat Rock Community School District’s Annual Financial Report**

*Management’s Discussion & Analysis (MD&A)*

Basic Financial Statements

*Government-wide Financial Statements*

*Fund Financial Statements*

*Notes to the Basic Financial Statements*

## *Reporting the School District as a Whole - District-wide Financial Statements*

One of the most important questions asked about the School District is, "Is the School District as a whole better off or worse off financially as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include *all* assets and liabilities, using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's *net assets*- the difference between assets and liabilities, as reported in the Statement of Net Assets - as one way to measure the School District's financial health, or *financial position*. Over time, *increases or decreases* in the School District's net assets - as reported in the Statement of Activities - are one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses is the School District's *operating results*. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools to assess the *overall health* of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, operations and maintenance, transportation, athletics, food services, and capital improvement project. General and Debt Service Fund property taxes, the foundation allowance revenue, and state and federal grants finance most of these activities.

## *Reporting the School District's Most Significant Funds – Fund Financial Statements*

The School District's fund financial statements provide detailed information about the most *significant funds* - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (like the Food Service Fund) or to show that it is meeting legal responsibilities for using certain taxes, and other money (like taxes received for the retirement of debt from the local taxing entities). The governmental funds of the School District use the following accounting approach:

Governmental funds - Most of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in a reconciliation.

## *The School District as Trustee - Reporting the School District's Fiduciary Responsibilities*

The School District is the trustee, or *fiduciary* for its student activity funds. All of the School District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## The School District as a Whole

Recall that the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's governmental activities net assets as of June 30, 2008:

**TABLE 1**

	<b>Governmental Activities (in millions)</b>		<b>Variance</b>
	<b>2008</b>	<b>2007</b>	
<b>ASSETS</b>			
Current assets	\$ 23.38	\$ 6.49	200.60%
Capital assets – Net of accumulated depreciation	<u>24.25</u>	<u>23.80</u>	<u>1.89%</u>
<b>Total assets</b>	<b><u>\$47.63</u></b>	<b><u>\$30.29</u></b>	<b><u>57.25%</u></b>
<b>LIABILITIES</b>			
Current liabilities	\$ 5.06	\$ 6.00	(15.67%)
Long-term liabilities	<u>41.94</u>	<u>24.03</u>	<u>74.53%</u>
<b>Total liabilities</b>	<b><u>\$47.00</u></b>	<b><u>\$30.03</u></b>	<b><u>56.51%</u></b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 0.009	\$ (.75)	101.20%
Other Restricted	0.13	.16	(18.75%)
Restricted for debt retirement	0.30	.28	7.14%
Unrestricted	<u>.19</u>	<u>.57</u>	<u>(66.67%)</u>
<b>Total net assets</b>	<b><u>\$.629</u></b>	<b><u>\$.26</u></b>	<b><u>141.92%</u></b>

The analysis shown here focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the School District's governmental activities is discussed in Table 2 below. The School District's governmental activities net assets were \$.629 million on June 30, 2008. Capital assets, net of related debt totaling \$0.009 million compares the original costs, less depreciation of the School District's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$.19 million was unrestricted.

The results of this year's operations for the governmental activities of the School District are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year ending 2008.



TABLE 2

	<b>Governmental Activities (in millions)</b>		
	<b>2008</b>	<b>2007</b>	<b>Variance</b>
<b>REVENUES</b>			
General revenues:			
Property taxes levied for general purposes	\$ 2.03	\$ 1.83	10.93%
Property taxes levied for debt services	2.09	1.98	5.56%
Federal and state aid not restricted for specific purposes	12.68	12.62	0.48%
Other	.44	.31	41.94%
Program revenues:			
Grants and categoricals	2.14	2.11	1.42%
Charges for services	<u>.64</u>	<u>.63</u>	1.59%
<b>Total revenue</b>	<b><u>20.02</u></b>	<b><u>19.48</u></b>	<b><u>2.77%</u></b>
<b>FUNCTION/PROGRAM EXPENSES</b>			
Instruction	\$ 8.40	\$ 9.20	(8.70%)
Support services	7.83	6.03	29.85%
Non program charges	-	-	-
Food services	.55	.51	7.84%
Athletics	.33	.28	17.86%
Community Services	.23	.17	35.29%
Interest on long-term debt	1.00	1.15	(13.04%)
Capital projects activities	-	-	-
Depreciation (unallocated)	<u>1.13</u>	<u>1.10</u>	<u>3.64%</u>
<b>Total expenses</b>	<b><u>19.48</u></b>	<b><u>18.44</u></b>	<b><u>5.64%</u></b>
<b>TRANSFERS</b>			
Transfers from/to other governmental units	<u>(.17)</u>	<u>(.4)</u>	<b><u>57.50%</u></b>
<b>Increase in net assets</b>	<b><u>\$0.37</u></b>	<b><u>\$0.64</u></b>	<b><u>(42.19%)</u></b>

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$19.64 million. Certain activities were partially funded from those who benefited from the programs of \$.64 million or by other governments and organizations that subsidized certain programs with grants and categoricals of \$2.14 million. The district paid for the remaining "public benefit" portion of our governmental activities with \$4.12 million in taxes, \$13.12 million accumulated in federal and state aid not restricted for specific purposes and other revenues, like interest and general entitlements. Transfer to and from other government units of \$.17 million was for Special Education tuition/program costs.

The School District experienced an increase in net assets. Though there was a small decrease in the number of students, resulting in decreased state per pupil aid and increases in the cost of utilities, purchases for textbooks and a school bus, these factors were more than offset by the dynamics of the government-wide financial model, where depreciation expense was less than capital outlay costs as reported in the funds. The increase in net assets differs from the change in fund balances and a reconciliation appears in the body of the financial statements.

As discussed above, the net costs show the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

As summarized below, we have presented the cost of each of the School District's five largest functions - instruction, operations and maintenance, student transportation services, school food services, athletics and all others, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the School District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

### **The School District's Funds**

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps you consider whether the School District is being accountable for the resources taxpayers and others provide to it but may also give you more insight into the School District's overall financial health.

As the School District completed this year; our governmental funds reported a combined fund balance of \$19.64 million, which is an increase of \$18.12 million from last year. If we subtract our new bond issue fund balance of \$18.44 million, the combined 2007-2008 fund balance is \$1.21 million, a decrease of \$0.31 million. This decrease is significantly more than we had projected in our original budget because:

- We spent fund equity to purchase a lift bus for special needs students.
- We had designated part of our fund balance from 2006-2007 for payment for the completion in 2007-2008 of our phone and fiber installations. On the other hand, our phone costs decreased as projected. This decrease is helping defray the loan costs and will benefit us after the loan is paid off.
- We had significant increases in heating, electric, food and fuel costs.

The Debt Service Fund used property taxes to service annual scheduled payments on the 1995 bond issue, which was refunded in 2003. The Debt Service fund balance is \$.30 million at June 30, 2008.

The 2008 bond proceeds were recorded in the Capital Projects Fund. Preliminary construction costs were incurred during the fiscal year, and the fund balance at June 30, 2008 is \$18,435,517.

### **General Fund Budgetary Highlights**

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the body of the report. The District is the fiscal agent for two consortiums. The special education consortium is made up of four school districts and the vocational consortium consists of nine districts. Revenue and expenditure fluctuations are volatile due to the nature of the consortiums.

There were revisions made to the 2007-2008 general fund original budget. Budgeted revenues and incoming transfers were increased \$398,638 due primarily to the following changes:

- Increases in state and federal program revenue of approximately \$250,000.
- Increase in prior year state aid revenue for the Special Ed Headlee obligation and prior year taxes that decreased in 2006-2007 paid back to us through state aid in 2007-2008 of approximately \$117,500.

Budgeted expenditures and outgoing transfers were increased \$738,151 due primarily to the following changes (approximate dollar amounts):

- Completion of our telecommunications project of about \$132,000.
- Purchase of a new Special Ed lift bus and a GPS system for our entire bus fleet -\$90,000.
- Increases in spending for textbooks - \$183,000.
- An extra elementary teacher - \$60,000.
- Utilities and fuel - \$36,000.
- Grant spending - \$155,000.
- Miscellaneous expenditures -\$82,000.

### **Capital Asset and Debt Administration**

#### *Capital Assets*

The district's net investments in capital assets increased during the year by \$289,554 which is summarized below:

	<b>Capital Assets</b>		
	<b>Year Ended June 30, 2008</b>	<b>Year Ended June 30, 2007</b>	<b>Variance</b>
Land	\$ 37,230	\$ 37,230	-
Construction in progress	1,059,924	121,861	769.78%
Buildings and improvements	19,350,191	19,905,932	(2.79%)
Buses and other vehicles	398,489	414,306	(3.82%)
Furniture and equipment	<u>3,404,519</u>	<u>3,481,470</u>	<u>(2.21%)</u>
	<b><u>\$24,250,353</u></b>	<b><u>\$23,960,799</u></b>	<b><u>1.21%</u></b>

In 1995, Flat Rock Community School District voters approved a \$23 million, general obligation, bond issue. The proceeds from that bond issue were used for building a new high school and remodeling three existing school facilities and equipping those facilities for technology.

In 2007, Flat Rock Community School District voters approved an \$18.195 million, general obligation, bond issue. The proceeds from that bond issue are being used to renovate all existing school buildings and parking lots and equipping those buildings with technology.

## *Debt*

At the end of this year, the School District had \$33.5 million in bonds outstanding versus \$17.4 million last year – an increase due to the proceeds of the 2008 bond issue less the scheduled principal payments on the bonded indebtedness. Those bonds consisted of the following:

	<b>Outstanding Debt</b>		
	<b>Year Ended June 30, 2008</b>	<b>Year Ended June 30, 2007</b>	<b>Variance</b>
General obligation bonds	<b><u>\$33,540,000</u></b>	<b><u>\$16,345,000</u></b>	<b><u>105.20%</u></b>

Other obligations include accrued vacation pay, sick leave, bus notes, installment debt on a modular building and energy conservation bonds. There is more detailed information about our long-term liabilities and capital assets in the Notes to the Financial Statements.

## **Economic Factors and Next Year's Budgets and Rates**

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Our student enrollment decreased (by 27 students) for the first time in many years in 2007-2008. These financial reports are being prepared in October, 2008. As of that time, we have lost an additional 6 students. We are encouraged that the amount of loss is decreasing.
- The State of Michigan has mandated new requirements for graduation. Some of these mandated requirements are unfunded by the state. One of those requirements is foreign language. We have hired 3 new Spanish teachers for the 2008-2009 school year.
- As of the preparation of these statements, the worldwide economic forecast has become extremely bleak. We are anticipating increased costs for utilities, fuel and supplies and the need for another school bus. We have negotiated 3-year contracts with our Teacher and Custodial unions. We feel these contracts are appropriate and fair and reflect the present and future economic climate.
- Our elected officials and administration monitor the budget very closely and take steps to try and balance revenue and expenditures to meet its fiscal responsibilities for their taxpayers, citizens, investors and creditors.

## **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office, Flat Rock Community School District, 28639 Division St., Flat Rock, Michigan 48134.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**Flat Rock Community Schools**  
**Statement of Net Assets**  
**June 30, 2008**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 18,829,290	\$ 255,431	\$ 19,084,721
Investments	1,203,078	-	1,203,078
Receivables, net	3,328,091	119,225	3,447,316
Internal balances	162	(162)	-
Other assets	18,639	253,773	272,412
Capital assets not being depreciated	1,097,154	-	1,097,154
Capital assets being depreciated, net	23,153,199	-	23,153,199
<b>Total assets</b>	<b>47,629,613</b>	<b>628,267</b>	<b>48,257,880</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	2,180,550	1,408	2,181,958
State aid anticipation notes payable	1,500,000	-	1,500,000
Unearned revenue	29,458	212,331	241,789
Long-term debt:			
Due within one year	1,348,660	-	1,348,660
Due in more than one year	41,941,957	-	41,941,957
<b>Total liabilities</b>	<b>47,000,625</b>	<b>213,739</b>	<b>47,214,364</b>
<b>Net assets (deficit)</b>			
Invested in capital assets, net of related debt	9,415	-	9,415
Restricted for:			
Debt service	299,173	-	299,173
Other purposes	126,136	-	126,136
Unrestricted	194,264	414,528	608,792
<b>Total net assets</b>	<b>\$ 628,988</b>	<b>\$ 414,528</b>	<b>\$ 1,043,516</b>

The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Activities**  
**For the Year Ended June 30, 2008**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>		<b><u>Net (Expense) Revenue</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	
Governmental activities:				
Instruction	\$ 8,393,925	\$ 284,419	\$ 1,875,946	\$ (6,233,560)
Supporting services	7,827,990	-	-	(7,827,990)
Food service	549,636	265,564	265,356	(18,716)
Athletics	333,015	92,377	-	(240,638)
Community services	230,271	-	-	(230,271)
Intergovernmental	167,530	-	-	(167,530)
Interest on long-term debt	1,003,008	-	-	(1,003,008)
Unallocated depreciation expense	1,132,774	-	-	(1,132,774)
Total governmental activities	<u>19,638,149</u>	<u>642,360</u>	<u>2,141,302</u>	<u>(16,854,487)</u>
Business-type activities:				
Vocational education	<u>237,559</u>	<u>237,559</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 19,875,708</u>	<u>\$ 879,919</u>	<u>\$ 2,141,302</u>	<u>\$ (16,854,487)</u>

continued...



**Flat Rock Community Schools**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2008**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Total</b></u>
<b>Changes in net assets</b>			
Net expense	<u>\$ (16,854,487)</u>	<u>\$ -</u>	<u>\$ (16,854,487)</u>
General revenues:			
Property taxes levied for general purposes	2,030,473	-	2,030,473
Property taxes levied for debt service	2,089,433	-	2,089,433
Grants and contributions not restricted for specific purposes	12,684,860	-	12,684,860
Unrestricted interest and investment earnings	225,351	-	225,351
Other	<u>197,912</u>	<u>-</u>	<u>197,912</u>
Total general revenues	<u>17,228,029</u>	<u>-</u>	<u>17,228,029</u>
Change in net assets	373,542	-	373,542
Net assets, beginning of year	<u>255,446</u>	<u>414,528</u>	<u>669,974</u>
<b>Net assets, end of year</b>	<u><u>\$ 628,988</u></u>	<u><u>\$ 414,528</u></u>	<u><u>\$ 1,043,516</u></u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

**Flat Rock Community Schools**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 334,227	\$ 37,339	\$ 18,312,176	\$ 145,548	\$ 18,829,290
Investments	1,199,395	3,683	-	-	1,203,078
Taxes receivable	243,829	149,144	-	-	392,973
Accounts receivable	2,616,326	162,144	153,469	3,179	2,935,118
Prepays	4,697	-	-	-	4,697
Inventory	-	-	-	13,942	13,942
Due from other funds	-	116,963	-	821	117,784
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b><u>TOTAL ASSETS</u></b>	<u>\$4,398,474</u>	<u>\$469,273</u>	<u>\$18,465,645</u>	<u>\$ 163,490</u>	<u>\$ 23,496,882</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 338,129	\$ 7,956	\$ 30,128	\$ 4,487	\$ 380,700
Accrued payroll and related liabilities	1,660,567	-	-	5,149	1,665,716
Due to other funds	92,622	-	-	25,000	117,622
State aid anticipation note	1,500,000	-	-	-	1,500,000
Deferred revenue	26,740	162,144	-	2,718	191,602
	<u>26,740</u>	<u>162,144</u>	<u>-</u>	<u>2,718</u>	<u>191,602</u>
Total liabilities	<u>3,618,058</u>	<u>170,100</u>	<u>30,128</u>	<u>37,354</u>	<u>3,855,640</u>
<b>Fund balances:</b>					
Reserved for inventory and prepaids	4,697	-	-	13,942	18,639
Unreserved, designated for:					
Compensated absences	452,018	-	-	-	452,018
Unreserved:					
Undesignated	323,701	299,173	18,435,517	-	19,058,391
Undesignated, reported in nonmajor Special revenue funds	-	-	-	112,194	112,194
	<u>-</u>	<u>-</u>	<u>-</u>	<u>112,194</u>	<u>112,194</u>
Total fund balances	<u>780,416</u>	<u>299,173</u>	<u>18,435,517</u>	<u>126,136</u>	<u>19,641,242</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$4,398,474</u>	<u>\$469,273</u>	<u>\$18,465,645</u>	<u>\$ 163,490</u>	<u>\$ 23,496,882</u>

The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2008**

Fund balances - total governmental funds	\$ 19,641,242
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	1,097,154
Add: capital assets, being depreciated	39,240,416
Deduct: accumulated depreciation	(16,087,217)

Some revenues have been earned by the district but will not be received soon enough to pay for the current year's expenditures, and therefore are not recognized in the governmental funds.

Add: deferred long-term receivables	162,144
-------------------------------------	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(42,838,599)
Deduct: accrued interest on bonds payable	(134,134)
Deduct: compensated absences	(452,018)

Net assets of governmental activities	<u><u>\$ 628,988</u></u>
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The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
Local sources:					
Property taxes	\$ 2,031,970	\$ 2,089,792	\$ -	\$ -	\$ 4,121,762
Food sales	-	-	-	186,285	186,285
Athletic admissions	-	-	-	38,546	38,546
Interest	90,748	28,721	71,677	-	191,146
Other	652,519	478	-	133,110	786,107
State sources:					
Unrestricted	12,684,860	-	-	-	12,684,860
Restricted	1,097,266	-	-	17,030	1,114,296
Federal sources	635,475	-	-	248,326	883,801
Total revenues	<u>17,192,838</u>	<u>2,118,991</u>	<u>71,677</u>	<u>623,297</u>	<u>20,006,803</u>
<b>Expenditures</b>					
Instruction	9,779,282	-	-	-	9,779,282
Supporting services	6,680,115	-	-	-	6,680,115
Community services	230,271	-	-	-	230,271
Athletics	-	-	-	333,015	333,015
Food service	-	-	-	549,636	549,636
Intergovernmental	167,530	-	-	-	167,530
Capital outlay	-	-	1,059,923	-	1,059,923
Debt service:					
Principal	61,279	1,189,000	-	-	1,250,279
Interest and fiscal charges	78,709	1,179,995	-	-	1,258,704
Total expenditures	<u>16,997,186</u>	<u>2,368,995</u>	<u>1,059,923</u>	<u>882,651</u>	<u>21,308,755</u>
Revenues over (under) expenditures	<u>195,652</u>	<u>(250,004)</u>	<u>(988,246)</u>	<u>(259,354)</u>	<u>(1,301,952)</u>
<b>Other financing sources (uses)</b>					
Transfers in	-	265,245	-	233,175	498,420
Transfers out	(498,420)	-	-	-	(498,420)
Gain on sale of investments	-	-	32,349	-	32,349
Loan proceeds	-	-	18,195,000	-	18,195,000
Premium on bond	-	-	1,196,414	-	1,196,414
Total other financing sources (uses)	<u>(498,420)</u>	<u>265,245</u>	<u>19,423,763</u>	<u>233,175</u>	<u>19,423,763</u>
Net change in fund balances	(302,768)	15,241	18,435,517	(26,179)	18,121,811
Fund balances, beginning of year	<u>1,083,184</u>	<u>283,932</u>	<u>-</u>	<u>152,315</u>	<u>1,519,431</u>
<b>Fund balances, end of year</b>	<u><u>\$ 780,416</u></u>	<u><u>\$ 299,173</u></u>	<u><u>\$ 18,435,517</u></u>	<u><u>\$ 126,136</u></u>	<u><u>\$ 19,641,242</u></u>

The accompanying notes are an integral part of these financial statements

**Flat Rock Community Schools**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2008**

Net change in fund balances - total governmental funds	\$ 18,121,811
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	1,422,328
Deduct: depreciation expense	(1,132,774)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.

Deduct: collections on deferred long-term receivables	(27,461)
---	----------

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities	1,250,279
Deduct: loan proceeds	(19,391,414)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and in the statement of activities when interest accrues.

Add: decrease in accrued interest on long-term debt	176,987
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Decreases in compensated absences are reported as expenditures when financial resources are used in the governmental funds.

Deduct: increase in the accrual for compensated absences	(46,214)
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Change in net assets of governmental activities	\$ <u>373,542</u>
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The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Local sources:				
Property taxes	\$ 1,912,093	\$ 2,037,605	\$ 2,031,970	\$ (5,635)
Interest	95,000	85,000	90,748	5,748
Other	554,000	627,149	652,519	25,370
State sources:				
Unrestricted	13,194,236	13,269,283	12,684,860	(584,423)
Restricted	439,526	518,956	1,097,266	578,310
Federal sources	599,345	663,228	635,475	(27,753)
 Total revenues	 16,794,200	 17,201,221	 17,192,838	 (8,383)
 <b>Expenditures</b>				
Instruction:				
Basic programs	7,654,316	8,004,380	7,990,108	(14,272)
Added needs	1,932,581	1,870,877	1,789,174	(81,703)
Supporting services:				
Pupil services	1,183,405	1,203,290	1,189,710	(13,580)
Instructional staff	530,761	555,622	580,331	24,709
General administration	276,186	305,367	306,917	1,550
School administration	947,961	1,025,975	1,052,829	26,854
Business office	317,810	303,516	314,367	10,851
Operations and maintenance	2,013,647	2,047,093	2,078,603	31,510
Pupil transportation	629,193	840,763	851,198	10,435
Central services	267,662	300,095	306,160	6,065
Community services	195,378	234,621	230,271	(4,350)
Intergovernmental	208,010	176,115	167,530	(8,585)
Debt service:				
Principal	29,525	75,726	61,279	(14,447)
Interest	72,600	72,600	78,709	6,109
Total expenditures	16,259,035	17,016,040	16,997,186	(18,854)
 Revenues over (under) expenditures	 535,165	 185,181	 195,652	 10,471

continued...

**Flat Rock Community Schools**  
**Statement of Revenues, Expenditures and Changes**  
**in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2008**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Other financing sources (uses)</b>				
Transfers out	\$ (483,471)	\$ (485,245)	\$ (498,420)	\$ 13,175
Total other financing sources (uses)	(483,471)	(485,245)	(498,420)	13,175
Net change in fund balance	51,694	(300,064)	(302,768)	(2,704)
Fund balance, beginning of year	1,083,184	1,083,184	1,083,184	-
<b>Fund balance, end of year</b>	<u>\$ 1,134,878</u>	<u>\$ 783,120</u>	<u>\$ 780,416</u>	<u>\$ (2,704)</u>

The accompanying notes are an integral part of these financial statements.



**Flat Rock Community Schools**  
**Statement of Net Assets**  
**Proprietary Fund**  
**June 30, 2008**

	<b>Enterprise Fund</b>
	<b>Vocational Education</b>
<b>Assets</b>	
Current assets:	
Cash	\$ 255,431
Accounts receivable	119,225
Inventories	<u>253,773</u>
 Total assets	 <u>628,429</u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 1,408
Due to other funds	162
Unearned revenue	<u>212,331</u>
 Total liabilities	 <u>213,901</u>
 <b>Net Assets, unrestricted</b>	 <u><u>\$ 414,528</u></u>

The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Fund**  
**For the Year Ended June 30, 2008**

	<b>Enterprise Fund</b>
	<b>Vocational Education</b>
<b>Operating revenues</b>	
Charges for services	\$ 237,559
<b>Operating expenses</b>	
Salaries	60,834
Employee benefits	37,535
Contracted services	116,929
Office expense	22,261
Total operating expenses	237,559
Change in net assets	-
Net assets, beginning of year	414,528
<b>Net assets, end of year</b>	<b>\$ 414,528</b>

The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2008**

	<b>Enterprise Fund Vocational Education</b>
<b>Cash flows from operating activities</b>	
Cash received from customers and others	\$ 368,026
Cash payments to employees	(98,369)
Cash payments to suppliers for goods and services	(119,993)
	<hr/>
Net cash provided by operating activities	149,664
	<hr/>
Net increase in cash and cash equivalents	149,664
	<hr/>
Cash and cash equivalents, beginning of year	105,767
	<hr/>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 255,431</b>
	<hr/>
<b>Reconciliation of operating loss to net cash provided by operating activities</b>	
Operating income	\$ -
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Inventories	244,257
Accounts receivable	(113,790)
Accounts payable	1,408
Unearned revenue	17,823
Due to other funds	(34)
	<hr/>
<b>Net cash provided by operating activities</b>	<b>\$ 149,664</b>
	<hr/>

The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2008**

	<b><u>Private- Purpose Trust Fund</u></b>	
	<b><u>Scholarships</u></b>	<b><u>Agency Funds</u></b>
<b>Assets</b>		
Cash and cash equivalents	\$       960	\$   103,109
Investments	<u>140,960</u>	<u>47,515</u>
Total assets	141,920	<u><u>\$   150,624</u></u>
<b>Liabilities</b>		
Due to student groups	<u>-</u>	<u><u>\$   150,624</u></u>
<b>Net assets</b>		
Reserved for scholarships	<u><u>\$   141,920</u></u>	

The accompanying notes are an integral part of these financial statements.

**Flat Rock Community Schools**  
**Statement of Changes in Fiduciary Net Assets**  
**Private-Purpose Trust Fund**  
**For the Year Ended June 30, 2008**

	<u><b>Scholarships</b></u>
<b>Additions</b>	
Contributions	\$     12,711
 <b>Deductions</b>	
Scholarships	<u>14,191</u>
Decrease in net assets	(1,480)
Net assets, beginning of year	<u>143,400</u>
<b>Net assets, end of year</b>	<u><u>\$   141,920</u></u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting entity

Flat Rock Community Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

#### C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for incoming tax proceeds and outgoing principal and interest payments on bonded indebtedness.

The *capital projects fund* accounts for construction projects occurring within the government.

The District reports the following major proprietary fund:

The *vocational education fund* is used to record fees received by the district for maintaining the Vocational Education Consortium and the corresponding operating expenses incurred by the program.

Additionally the District reports the following funds:

The *food service fund* accounts for the activities of the food service operation at the various cafeteria locations. The District charges users primarily for the direct costs of this program, which is subsidized by state and federal grants.

The *athletics fund* accounts for the activities of the athletic operations of the District. The District charges users primarily for attending events, and is subsidized by the general fund.

The *private purpose trust fund* account for amounts entrusted to the District for scholarship awards and similar trust activities.

The *agency fund* accounts for assets held for student activity groups and organizations and is custodial in nature.



# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's enterprise fund is charges to other school districts for vocational education services. Operating expenses include the cost of services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **D. Assets, liabilities and equity**

#### ***1. Deposits and investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

#### ***2. Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Property tax and other receivables are shown net of an allowance for uncollectible amounts. Properties are assessed as of December 31, and the related property taxes are levied and become a lien on July 1 and December 1 for 100 percent of the taxes that are due August 31 and February 28, respectively. Unpaid taxes become delinquent March 1 of the following year and are added to the county delinquent tax rolls.

Accounts payable and other payables reflected in the financial statements are based on when the liability is incurred.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### 3. *Inventories and prepaid items*

All inventories are valued at cost using the first-in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories in the Vocational Education fund include costs incurred for house construction, for which the inventory cost is relieved upon the sale of the house.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both District-wide and fund financial statements.

### 4. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Vehicles	10
Equipment	3 - 20

### 5. *Compensated absences*

Amounts of vested or accumulated vacation leave are accrued in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as “termination leave” prior to retirement.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### **6. *Long-term obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **7. *Fund equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

### **B. Excess of Expenditures Over Appropriations**

P.A. 621 of 1978, as amended, provides that a government shall not incur expenditures in excess of the amount appropriated. The approved budgets of the District were adopted on a detailed functional level basis.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

During the year ended June 30, 2008, the District incurred certain expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Budget</u>
General Fund			
Supporting Services:			
Instructional staff	\$ 555,622	\$ 580,331	\$ 24,709
General administration	305,367	306,917	1,550
School administration	1,025,975	1,052,829	26,854
Business office	303,516	314,367	10,851
Operations and maintenance	2,047,093	2,078,603	31,510
Pupil transportation	840,763	851,198	10,435
Central services	300,095	306,160	6,065
Debt service:			
Interest	72,600	78,709	6,109
Other financing uses:			
Transfers out	485,245	498,420	13,175

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and investments

##### *Statutory Authority*

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- (b) Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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The District's investment policy allows for all of these types of investments.

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Asset follows:

**Statement of Net Assets:**

Cash and cash equivalents	\$ 19,084,721
Investments	<u>1,203,078</u>
	<b>20,287,799</b>

**Statement of Fiduciary Net Assets:**

Private Purpose Trust Fund:	
Cash and cash equivalents	960
Investments	140,960
Agency Funds:	
Cash and cash equivalents	103,109
Investments	<u>47,515</u>
	<b><u>\$ 20,580,343</u></b>

These amounts are classified for note disclosure purposes as follows:

Bank deposits (checking accounts, savings accounts and CDs)	\$ 387,020
Investments in governmental liquid asset funds	<u>20,193,323</u>
	<b><u>\$ 20,580,343</u></b>

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
National City Municipal Investment Fund	n/a	\$ 721,000	Not rated
MBIA Investment Fund	n/a	1,203,078	AAA
Michigan Liquid Asset Fund (MILAF)	n/a	<u>18,269,245</u>	S&P AAAm
		<b><u>\$ 20,193,323</u></b>	

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### Investment and deposit risk

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District's investments do not have maturity dates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The credit ratings on investments are disclosed above.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, \$260,363 of the District's bank balance of \$460,363 was uninsured and uncollateralized.

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### B. Receivables

Receivables are comprised of the following:

	<b>Governmental Activities</b>	<b>Amount Not Expected to be Collected in One Year</b>
Taxes receivable	\$ 392,973	\$ -
Intergovernmental	2,606,366	-
Accounts receivable	<u>447,977</u>	<u>146,861</u>
	<b><u>\$ 3,447,316</u></b>	<b><u>\$ 146,861</u></b>

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

### C. Capital assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 37,230	\$ -	\$ -	\$ 37,230
Construction in Process	121,861	1,191,553	(253,490)	1,059,924
	<u>159,091</u>	<u>1,191,553</u>	<u>(253,490)</u>	<u>1,097,154</u>
Capital assets being depreciated:				
Buildings	21,830,151	-	-	21,830,151
Building improvements	6,988,579	13,615	-	7,002,194
Buses	820,325	70,579	-	890,904
Computer equipment	2,673,615	354,266	-	3,027,881
Furniture	462,000	26,300	-	488,300
Office equipment	5,587,300	13,620	-	5,600,920
Site improvements	193,596	-	-	193,596
Vehicles (other than buses)	200,585	5,885	-	206,470
	<u>38,756,151</u>	<u>484,265</u>	<u>-</u>	<u>39,240,416</u>
Accumulated depreciation:				
Buildings	(7,048,647)	(399,549)	-	(7,448,196)
Building improvements	(1,951,268)	(160,127)	-	(2,111,395)
Buses	(435,789)	(83,099)	-	(518,888)
Computer equipment	(1,494,440)	(157,040)	-	(1,651,480)
Furniture	(323,275)	(25,705)	-	(348,980)
Office equipment	(3,423,730)	(288,392)	-	(3,712,122)
Site improvements	(106,479)	(9,680)	-	(116,159)
Vehicles (other than buses)	(170,815)	(9,182)	-	(179,997)
Total Accumulated Depreciation	<u>(14,954,443)</u>	<u>(1,132,774)</u>	<u>-</u>	<u>(16,087,217)</u>
Capital assets being depreciated, net	<u>23,801,708</u>	<u>(648,509)</u>	<u>-</u>	<u>23,153,199</u>
Capital assets, net	<u>\$ 23,960,799</u>	<u>\$ 543,044</u>	<u>\$ (253,490)</u>	<u>\$ 24,250,353</u>

Depreciation expense of \$1,132,774 was not charged to individual functions/programs, but instead is reported as “unallocated depreciation” on the statement of activities.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### D. Payables

Payables are comprised of the following:

	<b><u>Governmental Activities</u></b>
Accounts payable	\$ 382,108
Interest payable	134,134
Salaries payable	<u>1,665,716</u>
	<b><u>\$ 2,181,958</u></b>

### E. Interfund receivables, payables and transfers

At June 30, 2008, interfund receivables and payables consisted of the following:

	<b><u>Due From</u></b>	<b><u>Due To</u></b>
General fund	\$ -	\$ 92,622
Debt service fund	116,963	
Nonmajor governmental funds	821	25,000
Vocation education fund	<u>-</u>	<u>162</u>
	<b><u>\$ 117,784</u></b>	<b><u>\$ 117,784</u></b>

	<b><u>Transfers In</u></b>	<b><u>Transfers Out</u></b>
General fund	\$ -	\$ 498,420
Debt service fund	265,245	-
Nonmajor governmental funds	<u>233,175</u>	<u>-</u>
	<b><u>\$ 498,420</u></b>	<b><u>\$ 498,420</u></b>

The District reports interfund balances between many of its funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds to subsidize the debt service and athletics funds.



# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### F. Long-term debt

The District issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

Long-term debt at June 30, 2008, consists of the following:

\$274,605 1998 Durant Bond Issue due in annual installments of \$15,283 to \$96,509 through May 15, 2013; interest at 5.50% (*)	\$ 162,144
---	------------

\$19,580,000 2003 Refunding Bonds for the advance refunding of a portion of the 1995 School Building and Site Bonds due in annual installments of \$825,000 to \$1,000,000 through May 1, 2025; interest at 2.75% to 5.00%	15,345,000
--	------------

\$18,195,000 2008 School Building and Site Bonds for construction of a new building due in annual installments of \$270,000 to \$1,800,000 through May 1, 2025; interest at 3.5% to 5.25%.	18,195,000
--	------------

\$901,000 2001 Energy Conservation Improvement Bonds due in annual installments of \$59,000 to \$102,000 through May 1, 2015; interest at 5.50%	580,000
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\$860,000 2003 Energy Conservation Improvement Bonds due in annual installments of \$50,000 to \$80,000 through May 1, 2018; interest at 3.00% to 6.00%	635,000
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\$639,617 2006 Note Payable for the purchase of a Modular Building due in annual installments of \$80,000 through May 1, 2012; interest at 3.82%	319,617
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\$269,223 2007 Note Payable for the purchase of Telecommunication Equipment due in annual in installments of \$35,223 to \$39,000 through October 1, 2014.	234,000
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\$86,056 2007 Note Payable for the purchase of a Bus due in annual installments of \$26,056 to \$30,000 through May1, 2010.	<u>60,000</u>
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<b>Total installment debt</b>	<b>35,530,761</b>
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School Bond Loan Fund	6,111,424
Compensated absences	<u>452,018</u>

<b>Total long-term debt</b>	<b><u>\$ 42,094,203</u></b>
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# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

- \* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

Following is a summary of future debt service requirements:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 1,278,283	\$ 1,704,837	\$ 2,983,120
2010	1,530,010	1,471,577	3,001,587
2011	1,696,772	1,418,013	3,114,785
2012	1,968,187	1,358,778	3,326,965
2013	2,035,509	1,318,875	3,354,384
2014-2018	10,337,000	5,250,681	15,587,681
2019-2023	11,505,000	2,798,678	14,303,678
2024-2025	5,180,000	337,000	5,517,000
<b>Totals</b>	<b>\$ 35,530,761</b>	<b>\$ 15,658,439</b>	<b>\$ 51,189,199</b>

The School Bond Loan Fund represents amounts borrowed from the State of Michigan School Bond loan program to supplement property tax revenue for making payments on the District's general obligation bonds. Although interest accrues each year, no payment is due until such time as the District's property tax revenue is sufficient to support the Debt Service requirements on the general obligation bonds. Changes to the School Bond Loan Fund for the year ended June 30, 2008, are as follows:

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
Beginning balance	\$ 4,991,574	\$ 1,299,805	\$ 6,291,379
Additions	-	280,045	280,045
Deletions	-	(460,000)	(460,000)
<b>Ending balance</b>	<b><u>\$ 4,991,574</u></b>	<b><u>\$ 1,119,850</u></b>	<b><u>\$ 6,111,424</u></b>

Compensated absences are generally liquidated by the General Fund.

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2008 was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>	<b>Due within One Year</b>
<b>Installment debt</b>					
1998 Durant Bonds	\$ 162,144	\$ -	\$ -	\$ 162,144	\$ 15,283
2003 Refunding Bonds	16,345,000	-	(1,000,000)	15,345,000	1,000,000
2008 School Building and Site Bonds	-	18,195,000	-	18,195,000	-
Unamortized Bond Premium	-	1,196,414	-	1,196,414	70,377
2001 Energy Conservation Improvement Bonds	639,000	-	(59,000)	580,000	64,000
2003 Energy Conservation Improvement Bonds	685,000	-	(50,000)	635,000	50,000
2002 Bus Note	-	-	-	-	-
2005 Modular Building	399,617	-	(80,000)	319,617	80,000
2007 Telecommunications Note	269,223	-	(35,223)	234,000	39,000
2007 Bus Note	86,056	-	(26,056)	60,000	30,000
Subtotal, installment debt	18,586,040	19,391,414	(1,250,279)	36,727,175	1,348,660
<b>Other debt</b>					
School Bond Loan Fund:					
Principal	4,991,574	-	-	4,991,574	-
Interest	1,299,805	280,045	(460,000)	1,119,850	-
	6,291,379	280,045	(460,000)	6,111,424	-
Compensated absences	405,804	56,899	(10,685)	452,018	-
Subtotal, other debt	6,697,183	336,944	(470,685)	6,563,442	-
Total long-term debt	\$ 25,283,223	\$ 19,728,358	\$ (1,720,964)	\$ 43,290,617	\$ 1,348,660

### G. Short-Term Debt

During the year, the District financed certain of its operations through the issuance of State Aid Anticipation Notes. These notes were issued for terms of less than one year, and accordingly are recorded as liabilities of the respective funds from which they were issued.

Changes in short-term state aid notes for the year ended June 30, 2008, were as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
State aid notes	<b><u>\$ 2,500,000</u></b>	<b><u>\$ 1,500,000</u></b>	<b><u>\$ 2,500,000</u></b>	<b><u>\$1,500,000</u></b>

# FLAT ROCK COMMUNITY SCHOOLS

## Notes to the Financial Statements

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### IV. OTHER INFORMATION

#### A. Risk management

Flat Rock Community Schools is exposed to various risks of loss related to theft of, damage to, and destruction of assets; injuries to employees; natural disasters, and health claims. For its general property and liability insurance coverage, the District is a participant in the MASB-SEG Property/Casualty, Pool, Inc. (MASB-SEG), a public entity risk pool for the benefit of school districts located in the metropolitan area. The District pays an annual premium to MASB-SEG for this liability coverage. MASB-SEG is considered a self-sustaining risk pool that will provide coverage for its members for up to \$2,000,000 per insured event. MASB-SEG obtains unlimited independent coverage for insured events in excess of the \$2,000,000 limit.

For its workers' compensation insurance coverage, the District is a participant in the SEG Workers' Disability Compensation Fund, Inc. (SEG), a public entity risk pool, for the benefit of school districts located in the area. The District pays an annual premium to SEG and coverage is provided for up to \$500,000 per insured event. SEG obtains independent coverage for insured events in excess of the \$500,000 limit. Settled claims have not exceeded excess coverage for the past three years.

An independent third party administers the District's health program. Changes in balances of the claims liability for the year ended June 30, 2008 are as follows:

Accrued claims, beginning of year	\$ 268,564
Incurred claims	1,726,899
Claim payments	<u>(1,726,589)</u>
<b>Accrued claims, end of year</b>	<b><u>\$ 268,874</u></b>

The accrued claims reserve amount at June 30, 2008 has been estimated to provide for incurred but not reported health claims.

#### B. Defined benefit pension plan

##### Plan Description

The Flat Rock Community Schools contributes to the Michigan Public School Employees Retirement System (MPSERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPSERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

# **FLAT ROCK COMMUNITY SCHOOLS**

## **Notes to the Financial Statements**

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### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Flat Rock Community Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the Flat Rock Community Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2008, 2007 and 2006 were \$1,685,398, \$1,632,435, and \$1,477,379, respectively, equal to the required contributions for each year.

### **Other Postemployment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

# **FLAT ROCK COMMUNITY SCHOOLS**

## **Notes to the Financial Statements**

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### **C. Commitments and Contingencies**

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, District management does not believe such disallowances, if any, will be material to the financial position of the District.

The District has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit. Management and legal counsel of the District expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

\* \* \* \* \*

## SUPPLEMENTARY INFORMATION

**Flat Rock Community Schools**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2008**

<u><b>ASSETS</b></u>	<u><b>Special Revenue</b></u>		
	<u><b>Food Service</b></u>	<u><b>Athletics</b></u>	<u><b>Total</b></u>
<b>Assets</b>			
Cash and cash equivalents	\$ 145,548	\$ -	\$ 145,548
Accounts receivable	3,179	-	3,179
Inventories	13,942	-	13,942
Due from other funds	-	821	821
	<u>-</u>	<u>821</u>	<u>821</u>
<u><b>TOTAL ASSETS</b></u>	<u>\$ 162,669</u>	<u>\$ 821</u>	<u>\$ 163,490</u>
 <u><b>LIABILITIES AND FUND BALANCES</b></u>			
<b>Liabilities</b>			
Accounts payable	\$ 4,487	\$ -	\$ 4,487
Accrued payroll and related liabilities	5,149	-	5,149
Due to other funds	25,000	-	25,000
Deferred revenue	2,718	-	2,718
	<u>2,718</u>	<u>-</u>	<u>2,718</u>
Total liabilities	<u>37,354</u>	<u>-</u>	<u>37,354</u>
<b>Fund balances</b>			
Reserved for inventory	13,942	-	13,942
Unreserved, undesignated	111,373	821	112,194
	<u>125,315</u>	<u>821</u>	<u>126,136</u>
<u><b>TOTAL LIABILITIES AND FUND BALANCES</b></u>	<u>\$ 162,669</u>	<u>\$ 821</u>	<u>\$ 163,490</u>



**Flat Rock Community Schools**  
**Combining Statement of Revenue, Expenditures,**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2008**

	<u>Special Revenue</u>		
	<u>Food Service</u>	<u>Athletics</u>	<u>Total</u>
<b>Revenue</b>			
Local sources:			
Food sales	\$ 186,285	\$ -	\$ 186,285
Athletic admissions	-	38,546	38,546
Other local revenue	79,279	53,831	133,110
State sources	17,030	-	17,030
Federal sources	248,326	-	248,326
Total revenue	<u>530,920</u>	<u>92,377</u>	<u>623,297</u>
<b>Expenditures</b>			
Food service activities	549,636	-	549,636
Athletic programs	-	333,015	333,015
Total expenditures	<u>549,636</u>	<u>333,015</u>	<u>882,651</u>
Revenue under expenditures	<u>(18,716)</u>	<u>(240,638)</u>	<u>(259,354)</u>
<b>Other financing sources</b>			
Transfers in	-	233,175	233,175
Total other financing sources	<u>-</u>	<u>233,175</u>	<u>233,175</u>
Net change in fund balances	(18,716)	(7,463)	(26,179)
Fund balances, beginning of year	<u>144,031</u>	<u>8,284</u>	<u>152,315</u>
<b>Fund balances, end of year</b>	<u>\$ 125,315</u>	<u>\$ 821</u>	<u>\$ 126,136</u>

## SINGLE AUDIT

**Flat Rock Community Schools**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2008**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Award</b>	<b>Beginning A/R (Def. Rev.)</b>	<b>Cash Received</b>	<b>Federal Expenditures</b>	<b>Ending A/R (Def. Rev.)</b>
<b>U.S. Department of Agriculture</b>							
Direct program:							
Food Distribution:							
Entitlement Commodities	10.550		\$ 27,366	\$ -	\$ 18,865	\$ 18,865	\$ -
Bonus Commodities	10.550		-	-	2,009	2,009	-
			27,366	-	20,874	20,874	-
Passed-through the Michigan Department of Education:							
School Breakfast Program:							
2007-08 Breakfast	10.553		44,311	-	44,311	44,311	-
			44,311	-	44,311	44,311	-
National School Lunch Program:							
2006-07 Section 4	10.555		30,142	30,142	30,142	-	-
2006-07 Section 11	10.555		152,108	152,108	152,108	-	-
2007-08 Section 4	10.555		28,866	-	28,866	28,866	-
2007-08 Section 11	10.555		154,275	-	154,275	154,275	-
			365,391	182,250	365,391	183,141	-
Subtotal passed-through the Michigan Department of Education							
			409,702	182,250	409,702	227,452	-
<b>Total U.S. Department of Agriculture</b>			437,068	182,250	430,576	248,326	-
<b>U.S. Department of Education</b>							
Passed-through the Michigan Department of Education:							
2006-07 Title I, Part A	84.010	071530-0607	120,127	17,987	17,987	-	-
2007-08 Title I, Part A	84.010	061530-0708	2,311	-	-	2,311	2,311
2007-08 Title I, Part A	84.010	081530-0708	125,845	-	65,911	121,928	56,017
			248,283	17,987	83,898	124,239	58,328
2006-07 Title V	84.298	070250-0607	380	380	380	-	-
2007-08 Title V	84.298	080250-0708	394	-	-	394	394
			774	380	380	394	394
2006-07 Technology Literacy Challenge	84.318	074290-0506	1,233	309	309	-	-
2007-08 Technology Literacy Challenge	84.318	084290-0708	1,183	-	-	1,183	1,183
			2,416	309	309	1,183	1,183
2006-07 Title II, Part A	84.367	070520-0607	69,114	1,371	1,371	-	-
2007-08 Title II, Part A	84.367	080520-0708	69,765	-	11,463	27,832	16,369
			138,879	1,371	12,834	27,832	16,369
Subtotal passed-through the Michigan Department of Education							
			390,352	20,047	97,421	153,648	76,274
Passed-through the Wayne County RESA:							
IDEA Special Education Cluster	84.027A	0607	335,422	177,588	177,588	-	-
IDEA Special Education Cluster	84.027A	0708	385,186	-	315,227	374,487	59,260
IDEA Positive Behavior Grant	84.027A	0708	610	-	-	610	610
IDEA Early Childhood Initiative	84.173A	0708	3,000	-	1,500	2,905	1,405
Subtotal passed-through the Wayne County RESA							
			724,218	177,588	494,315	378,002	61,275
Passed-through the Monroe County ISD:							
Tech Prep Grant	84.048A	073540/2725	31,960	-	31,960	31,960	-
Passed-through the Huron School District:							
Perkins	84.048	073520-401225	3,895	-	3,895	3,895	-
<b>Total U.S. Department of Education</b>			1,150,425	197,635	627,591	567,505	137,549

continued...

**Flat Rock Community Schools**  
**Schedule of Expenditures of Federal Awards (Concluded)**  
**For the Year Ended June 30, 2008**

<b>Federal Grantor/ Pass-through Grantor/ Program Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Award</b>	<b>Beginning Accrued (Deferred) Revenue</b>	<b>Cash Received</b>	<b>Federal Expenditures</b>	<b>Ending Accrued (Deferred) Revenue</b>
<b>U.S. Department of Health and Human Services</b>							
Passed-through Michigan Department of Community Health:							
Medicaid Outreach	93.778	-n/a-	\$ 67,970	\$ -	\$ 67,970	\$ 67,970	\$ -
<b>Total expenditures of federal awards</b>				<u>\$ 1,655,463</u>	<u>\$ 379,885</u>	<u>\$ 1,126,137</u>	<u>\$ 883,801</u>
							<u>\$ 137,549</u>

1. Expenditures in this schedule are in agreement with amounts reported as federal revenue in the financial statements and the financial reports submitted to the MDE.
2. The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities and are reported in the current year receipts column.
4. Expenditures include spoilage or pilferage.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

October 17, 2008

Board of Education  
Flat Rock Community Schools  
Flat Rock, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **FLAT ROCK COMMUNITY SCHOOLS**, as of and for the year ended June 30, 2008, and have issued our report thereon dated October 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Flat Rock Community Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Flat Rock Community Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Flat Rock Community Schools' internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by Flat Rock Community Schools' internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Flat Rock Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Flat Rock Community Schools in a separate letter dated October 17, 2008.

Flat Rock Community Schools' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Flat Rock Community School's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

October 17, 2008

Board of Education  
Flat Rock Community Schools  
Flat Rock, Michigan

**Compliance**

We have audited the compliance of **FLAT ROCK COMMUNITY SCHOOLS** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Flat Rock Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Flat Rock Community Schools' management. Our responsibility is to express an opinion on Flat Rock Community Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Flat Rock Community Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Flat Rock Community Schools' compliance with those requirements.

In our opinion, Flat Rock Community Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2008.

## **Internal Control Over Compliance**

The management of Flat Rock Community Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Flat Rock Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Flat Rock Community Schools' internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**FLAT ROCK COMMUNITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiency (ies) identified  
not considered to be material weaknesses?   X   yes \_\_\_\_\_ none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes   X   no

**Federal Awards**

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes   X   no

Significant deficiencies identified  
not considered to be material weaknesses? \_\_\_\_\_ yes   X   none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes   X   no

**FLAT ROCK COMMUNITY SCHOOLS**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)**  
**FOR THE YEAR ENDED JUNE 30, 2008**

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**SECTION I - SUMMARY OF AUDITORS' RESULTS (Continued)**

Identification of major programs:

<u><b>CFDA Number(s)</b></u>	<u><b>Name of Federal Program or Cluster</b></u>
84.027A & 84.173A	IDEA Special Education Cluster
Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	<u>  X  </u> yes <u>      </u> no

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2008-1: Preparation of Financial Statements in Accordance with GAAP**

**Criteria:** All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the districts management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

**Condition:** As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the district's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the District's internal controls.

**Cause:** Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

**Effect:** As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

# **FLAT ROCK COMMUNITY SCHOOLS**

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Concluded)**

**FOR THE YEAR ENDED JUNE 30, 2008**

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### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **Finding 2008-1: Preparation of Financial Statements in Accordance with GAAP (Concluded)**

**View of  
Responsible**

**Officials:** The district has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

### **SECTION IV – PRIOR YEAR FINDINGS**

None

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